

ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

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E-Mail Your Questions

If you have a question that you cannot find the answer for, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry with the exception of specific account inquiries. All inquiries will be responded to within two working days.

E-mail your question to:
TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR can not respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

Transaction Privilege Tax Changes and News

Education Transaction Privilege Tax

The Education Transaction Privilege Tax approved with Proposition 301 is effective beginning June 1, 2001. The 0.6% additional state rate will apply to all TPT classes listed in 42-5010 (A) (1) and Use Tax. More information about this increase will be included with later mailings.

Proposition 302 –Maricopa County Hotel Motel and Rental Car Surcharge

Beginning March 1, 2001 the Maricopa County Transient Lodging tax rate will increase by 1%, to a combined state and county rate of 7.27%.

Beginning March 1, 2001 the Maricopa County Rental Car Surcharge will change to the greater of:

- 3.25% of the gross proceeds, or
- \$2.50 per lease/rental

More information about how this will appear on your TPT-1 will follow.

Yuma County Use Tax on Electricity

The *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables* dated January 1, 2001 included an incorrect rate for Yuma County Class 26-Use Tax Electricity. Please note that effective January 1, 2001 the

combined state and county tax for Class 26 YMA, Use Tax Electricity is 6.5%.

Yuma County Capital Projects Tax

On September 12, 2000 voters approved the levy of a Yuma County Capital Projects Tax effective January 1, 2001. The County Capital Projects Tax is to be applied at 10% of the Transaction Privilege Tax rate levied by the State of Arizona, as stated in A.R.S. §42-6111.

[For prime contractors reporting under Class 15 only, prime contracting contracts entered into prior to the September 12 election may not be subject to the increase in the tax rate under specific conditions approved by the Department. For more information, contact the Department's Taxpayer Information & Assistance Section at (602) 255-2060 or (800) 843-7196, or check our web site:

(<http://www.revenue.state.az.us>)]

Penalty Provisions Change for Tax Periods Beginning On Or After January 1, 2001

These changes apply to income tax, withholding tax, transaction privilege tax, telecommunication services excise tax, county excise taxes and any other privilege excise tax administered by the department, severance tax, use tax, luxury tax, rental occupancy tax, estate tax, tax on water use and jet fuel excise and use tax.

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*****REMINDER*****

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your January 2001 TPT return no later than February 26, or deliver to DOR no later than February 27, 2001.

October Summary of General Fund Revenues

	October 2000	Fiscal Year Total
Individual Income Tax		
Net Collections	\$162,319,189	\$678,441,088
Percent Change *	14.1%	12.2%
Corporate Income Tax		
Net Collections	\$29,318,958	\$208,425,764
Percent Change *	26.8%	38.0%
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$246,434,561	\$985,113,415
Percent Change *	8.9%	9.3%
Total Big Three Tax Types		
Net Collections	\$438,072,708	\$1,871,980,267
Percent Change *	11.7%	13.0%

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax

Individual Income Tax Receipts

	October 00	October 99	Change
Gross Collections	\$20,630,470	\$17,489,874	18.0%
Withholding	\$191,524,441	\$170,295,433	12.5%
Refunds	(\$16,798,002)	(\$13,987,141)	20.1%
Urban Rev Sharing	(\$33,037,720)	(\$31,475,916)	5.0%
Net Collections	\$162,319,189	\$142,322,250	14.1%

	(00/01)	(99/00)	% Change
Fiscal Year Total			
Gross Collections	\$126,400,256	\$113,308,976	11.6%
Withholding	\$744,803,865	\$675,628,595	10.2%
Refunds	(\$60,612,154)	(\$58,367,410)	3.8%
Urban Rev Sharing	(\$132,150,880)	(\$125,903,664)	5.0%
Net Collections	\$678,441,088	\$604,666,498	12.2%

Just a reminder that the daily interest rate became 0.0002466 effective January 1st, 2001. The annual rate used for the 1st quarter will remain at 9% for all tax types, overpayments and underpayments.

TAX CALENDAR

FEBRUARY 2001

Due Date		For Period Ending
15	Income Tax Returns: Form 120: Corporation Form 140: Individual Form 141: Fiduciary Form 165: Partnership	10/31/00
15	Form 120: Corporation with Automatic Extension	4/30/00
15	Form 120S: S Corporation	11/30/00
15	Exempt Organizations Form 99: Annual Information Return Form 99T: Unrelated Business Income Form 120ES: Estimated Tax Payment, Corporation	9/30/00 9/30/00
	First Installment	10/31/01
	Second Installment	8/31/01
	Third Installment	5/31/01
	Fourth Installment	2/28/01
19	State Holiday - President's Day All State offices closed	
20	Form TPT-1: Transaction Privilege Tax: January Monthly Filers	1/31/01
20	Bingo: Financial Reports	1/31/01
20	Luxury Tax: Various Forms	1/31/01
26	EFT Form TPT-1 and Payment: Transaction Privilege Tax: January Monthly Filers,	1/31/01
28	Withholding Tax: Form A-1R	12/31/00
	Withholding Tax: Form A1-APR	12/31/00

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from Tony Manzo at (602) 542-3062 or toll free 1 (877) 863-0655.

Software Vendors Who Have Met Approval

As Of January 3, 2001

	Alpine Data, Inc	ATX Forms, Inc.	Arthur Andersen & Co	Block Financial Corporation	CCH Incorporated	CPA Software	Creative Solutions Inc	Data Technology Group	Deloitte & Touche	Drake Software	Exactax	H & R Block	Intuit	Lacerte Software Corp	Micro Vision Software Inc	NELCO Inc	Orrtax Software Inc	Petz Enterprises, Inc.	Research Institute of America	STF Service Corp	Taasc Force Software	Taxworks	Tri Tech Software Development	Universal Tax Systems, Inc.
Individual Forms																								
<i>131</i>								✓				✓					✓							
<i>140 IA</i>				✓								✓	✓											✓
<i>140</i>	✓				✓	✓		✓				✓	✓	✓		✓								
<i>140 Sch A</i>				✓	✓	✓		✓				✓	✓	✓		✓	✓				✓			
<i>140A</i>				✓	✓									✓			✓							
<i>140PY</i>	✓			✓	✓							✓		✓		✓	✓							
<i>140PY Sch A(PY)</i>			✓	✓	✓	✓		✓				✓	✓	✓		✓	✓				✓			
<i>140PY Sch A(PYN)</i>			✓	✓	✓	✓		✓				✓	✓	✓		✓	✓				✓			
<i>140NR</i>	✓			✓	✓							✓	✓			✓								
<i>140NR Sch A(NR)</i>			✓	✓	✓	✓		✓				✓	✓	✓		✓	✓				✓			
<i>140PTC</i>			✓	✓	✓			✓					✓	✓		✓	✓				✓			
<i>140X</i>			✓	✓		✓		✓				✓	✓				✓							
<i>201</i>					✓			✓									✓							
<i>202</i>						✓		✓					✓				✓							
<i>221</i>			✓	✓	✓			✓				✓	✓	✓			✓							
Business Forms																								
<i>51</i>				✓		✓											✓						✓	
<i>99</i>			✓														✓							
<i>99T</i>			✓														✓							
<i>120</i>			✓	✓		✓		✓						✓		✓							✓	
<i>120A</i>														✓										
<i>120S</i>				✓		✓		✓								✓	✓							
<i>120S Sch K-1(NR)</i>			✓	✓		✓		✓																
<i>120ES</i>				✓		✓		✓		✓						✓	✓						✓	
<i>120EXT</i>			✓	✓		✓		✓								✓	✓						✓	
<i>120W</i>																	✓						✓	
<i>120X</i>						✓		✓																

(Continued on page 4)

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Software Vendors Who Have Met Approval

As Of January 3, 2001

	Alpine Data, Inc	ATX Forms, Inc.	Arthur Andersen & Co	Block Financial Corporation	CCH Incorporated	CPA Software	Creative Solutions Inc	Data Technology Group	Deloitte & Touche	Drake Software	Exactax	H & R Block	Intuit	Lacerte Software Corp	Micro Vision Software Inc	NELCO Inc	Orrtax Software Inc	Petz Enterprises, Inc.	Research Institute of America	STF Service Corp	Taasc Force Software	Taxworks	Tri Tech Software Development	Universal Tax Systems, Inc.
122				✓		✓																	✓	
220			✓	✓		✓		✓						✓			✓					✓	✓	
165				✓		✓		✓		✓				✓		✓	✓					✓		
165- Sch K-1				✓		✓		✓		✓				✓		✓	✓					✓		
165 Sch K-1(NR)				✓		✓		✓		✓				✓		✓	✓					✓		
Other Forms																								
74																	✓							
76			✓														✓							
76EXT																								✓
141			✓			✓		✓																
141Sch K-1						✓		✓									✓							
141 Sch K-1(NR)						✓		✓									✓							
A-1R								✓																
A1 QRT								✓																
200																								✓
285																								✓
450																								✓
822																								✓
Credit Forms																								
300						✓		✓									✓							
301	✓			✓	✓	✓		✓				✓	✓			✓	✓							
308						✓		✓																
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324						✓		✓				✓	✓	✓			✓							
325						✓											✓							
AZ-140V				✓	✓	✓		✓					✓				✓							
AZ-8453				✓		✓		✓					✓				✓							
AZ-8453OL					✓								✓											

Arizona Transaction Privilege Tax

Ruling TPR 00-4 Summary

(This ruling supersedes and rescinds Arizona Transaction Privilege Tax Ruling TPR 94-10)

ISSUE:

Exemption for sales or leases of tangible personal property to nonprofit charitable organizations that regularly serve meals to the needy and indigent on a continuing basis at no cost.

DISCUSSION:

Sales of tangible personal property to a nonprofit charitable organization that has qualified under Internal Revenue Code (I.R.C.) § 501(c)(3) and that regularly serves meals to the needy and indigent on a continuing basis at no cost, are exempt from transaction privilege tax and use tax. Additionally, leases or rentals of tangible personal property to such an organization are exempt from transaction privilege tax under the personal property rental classification.

Recognition of I.R.C. § 501(c)(3) Status:

The organization must be recognized by the Internal Revenue Service as a nonprofit charitable organization under I.R.C. § 501(c)(3). The Internal Revenue Service (I.R.S.) issues a "Letter of Determination" to an organization meeting the qualifications of I.R.C. § 501(c)(3). The I.R.S. also issues letters of determination on a "group" basis.

An I.R.C. § 501(c)(3) organization may be a central organization that has subordinate organizations under its control. Instead of independently filing for I.R.C. § 501(c)(3) status, a subordinate organization of a larger central organization applies for I.R.C. § 501(c)(3) status through the central organization. The subordinate is subject to the general supervision or control of the central organization. If such a relationship exists between the organizations, the I.R.S. issues a Letter of Determination on a group basis. The central organization acts as the agent of the I.R.S. in ensuring that each subordinate qualifies as an exempt I.R.C. § 501(c)(3) organization. For purposes of this ruling, a "qualifying organization" means any organization that has been granted I.R.C. § 501(c)(3) status; either as a subordinate I.R.C. § 501(c)(3) organization or as a central I.R.C. § 501(c)(3) organization. However,

each I.R.C. § 501(c)(3) organization must independently meet the statutory requirement of regularly serving meals to the needy and indigent at no cost.

Documenting an Exempt Sale or Lease:

A.R.S. § 42-5009 outlines the requirements for an acceptable exemption certificate. Arizona Transaction Privilege Tax Procedure TPP 00-3, *Procedure for Use of Exemption Certificates*, explains how to use an exemption certificate. The department's ADOR Form 5000 is recommended. If an organization has a tax license number, it should be noted on the certificate; however, if it does not have a license number, it should notate "nonprofit 501(c)(3) organization." The department may challenge the validity of an exemption certificate if it has reason to believe that the vendor did not act in good faith in accepting the certificate, or that the certificate is not completed in its entirety.

A qualified organization should keep appropriate documentation to demonstrate that it is an I.R.C. § 501(c)(3) organization and that it regularly serves meals to the needy and indigent on a continuing basis at no cost. Usually, a vendor is not going to have sufficient information to determine that a particular organization qualifies as an I.R.C. § 501(c)(3) organization that regularly serves meals to the needy and indigent. To assist the vendors from which the organization purchases or leases tangible personal property, the department recommends that qualified organizations obtain a letter from the department that addresses the applicability of this exemption to the specific organization. By providing the appropriate documentation and facts about the organization and its meal program, the department can then issue a letter that can be copied and provided to vendors in conjunction with an exemption certificate.

RULING:

Gross income from sales or leases of tangible

(Continued on page 6)

Ruling TPR 00-4 Summary

(Continued from page 5)

personal property to a qualified organization is exempt from transaction privilege tax. To be a qualified organization, the organization must be a nonprofit charitable I.R.C. § 501(c)(3) organization. The organization must serve cold or hot prepared meals. These meals must be served on a repeated basis at regularly defined intervals. Additionally, the meals must be provided to needy and indigent persons at no cost. The needy and indigent include individuals who are destitute and helpless, and also persons whose means are not sufficient to adequately provide for their maintenance and support.

An exempt sale or lease should be documented with an acceptable exemption certificate accompanied by a letter from the department. The nonprofit organization should also retain records which indicate that it qualifies for the exemption.

Mark W. Killian, Director
Signed December 6, 2000

Non-Program City Tax Code Changes

City of Tempe Effective January 1, 2001

The city of Tempe increased its privilege tax 0.1%. This increases the privilege and use tax rate from 1.7% to 1.8%. The increase applies to the following classifications: Advertising, Amusements

- Construction contracting
- Job printing
- Manufactured buildings
- Timbering
- Publishing
- Rental of real property
- Hotel
- Restaurant/Bar
- Retail sales
- Telecommunications
- Transporting for hire
- Utility services
- Use tax

The increase does **not** apply to the mining category. For Construction contracting, the increased tax rate shall not apply to revenue or income derived from any construction contract executed or committed to where a binding bid has been submitted prior to January 1, 2001. The payments remain at 1.7%. For Transient lodging (Bed tax): The increased tax rate will not apply. The tax rate will remain at 2%. For Retail sales, the increase does not apply to a cash basis taxpayer who has entered into a binding contract or delivery of goods prior to January 1, 2001 and payment is received after January 1, 2001. The rate on these payments remains at 1.7%.

City of Prescott Effective February 1, 2001

The city of Prescott passed Ordinance 4062 imposing an Additional Tax on Transient Lodging of **2%** under Section 447 of the City

Privilege Tax Code. This is in addition to the tax imposed under Section 444 Hotels.

State of Arizona Department of Revenue Set for E-Government Integrated Tax System

Background

Department Director Mark W Killian identified the following situation:

- Increased demand for fast, coordinated service to individual, corporate, and other taxpayers from whom \$8 Billion is collected annually.
- The need to transform a department of 1,000 employees into a customer-centric organization.
- Fragmented, aging and unresponsive mission critical systems.
- Business processes and organizational structures that were siloed by type of tax rendering customer focus barriers.
- Resistance to funding large, expensive projects.

Project Objectives

The consulting project objectives were to:

- A Assess the current readiness of the department to undertake systems, business process and organizational structure transformations.
- B Gather ideas from other states and perform research in relevant technologies.
- C Develop a new vision of operations.
- D Prepare a procurement document to establish a business partner that will collaborate on a new system.
- E Obtain support from stakeholders including Governor's Office, Legislature, Department of Administration, Government Information

Technology Agency, Arizona Taxpayer Associations and Arizona newspapers.

Activities included:

- 1 Conduct of internal and external assessments of the Department.
- 2 Review of best practices in other states.
- 3 Review of relevant new technologies.
- 4 Determination of Department change readiness.
- 5 Development of a vision of future operation.
- 6 Development of a conceptual architecture of future systems.
- 7 Determination of funding approach.
- 8 Determination of project cost.
- 9 Development of a procurement document.

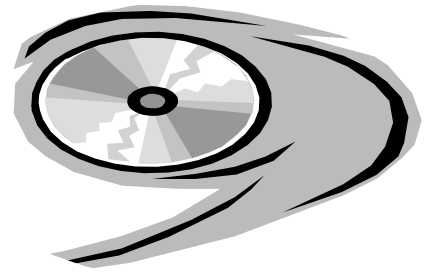
Conclusion

- ◆ The Department of revenue is positioned to replace it's mission critical systems, integrate it's business processes and re-organize itself for greater customer service.
- ◆ The project is expected to cost between \$75M-\$100M but through the innovative gainsharing approach, the project will be paid for out of additional revenues due and attributable to the new project.

Continued from page 1

- The late filing penalty is now 4.5% (not to exceed 25%) per month or fraction of a month instead of 5% that still applies to tax periods beginning before January 1, 2001.
- The late payment penalty is 1/2% (not to exceed 10%) per month or fraction of a month instead of the old flat 10% penalty that still applies to tax periods beginning before January 1, 2001.
- There is a new penalty called the notice and demand penalty. This penalty takes effect after a taxpayer receives a notice from the department that resulted from an error or an audit adjustment. The penalty is 1/2% (not to exceed 10%) per month or fraction of a month if the tax is not paid by the 21st calendar day after the date of the notice. This allows taxpayers 21 days in which to pay the additional tax without penalty when an error is made on the return.

**State of Arizona
Department of Revenue
Forms and Tax Information
CD-ROM 2000 Edition**



Includes:

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- Department of Revenue Tax Rulings
- Department of Revenue Tax Procedures
- Department of Revenue Private Taxpayer Rulings
- Arizona Department of Revenue Annual Report 2000
- Arizona E-File Manual

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